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A. IMPORTANCE OF BUDGETING**A.01 AID TO MANAGEMENT**

Each year a school district or PSA is confronted with the task of achieving numerous educational objectives within available financial resources. The accomplishment of this task is more probable if the district prepares a documented plan of action outlining the financial resources to be utilized to achieve specific objectives. The process of developing a budget has other managerial advantages:

- Costs relative to importance of programs and activities are periodically reevaluated for present and future educational advantages.
- Internal operations are systematically reexamined for efficiency and economy so that improvements might be made.
- Data concerning specific areas of responsibility are made readily available for evaluative purposes.

A.02 RESPONSIBILITY FOR BUDGETING

To ensure completion of the budget process and achieve the advantages of good budgetary management, assignment of budget responsibilities to specific school district officials is necessary. These areas of responsibility are as follows:

Formulation - The Superintendent or Chief Administrative Officer (and the administration) has the responsibility for developing the budget for presentation to the school board.

Adoption - The board of education has the responsibility of reviewing the budget presented, holding a public hearing, modifying it as necessary, and approving it for implementation prior to the beginning of the fiscal year.

Implementation - The superintendent (or chief administrative officer) has responsibility for the implementation of the budget plan. Only the board has the authority to alter the budget during the fiscal year. This authority to make changes, on an interim basis, may be delegated by the board to the chief administrative officer.

A.03 LEGISLATION CONCERNING BUDGETING

a) REQUIREMENTS UNDER THE UNIFORM BUDGETING AND ACCOUNTING ACT (P.A. 621)

The provisions of P.A. 621 became effective July 1, 1981. At that time, boards of education and school district administrators were required to adopt procedures to come in compliance with the Act. The purpose of the Act is to provide the structure necessary for a close relationship between the administration and the local school board with regard to the establishment of budgets and appropriations. The Act also provides that the Superintendent of Public Instruction shall publish suggested manuals, forms, and operating procedures for use by local and intermediate school districts.

The Act provides for penalties for violations that occur under the Act when brought to the attention of the Attorney General. The general appropriation act and the budget shall be adopted by the local legislative body before the commencement of the budget year (July 1). P.A. 621, Section 14(3), 19(1)

The following paragraphs list the major revenue and expenditures appropriation categories for the various funds:

(1) General Fund (and various others) - The following major revenue categories and expenditure functions constitute the minimal levels of appropriation for the general fund, at the local school district level; and for the general fund, special education fund, area vocational-technical education fund and the cooperative education fund at the intermediate school district level:

Revenue

- Local
- Other Political Subdivision
- State
- Federal
- Incoming Transfers and Other Transactions

Expenditures

Instruction:

- Basic programs
- Added Needs
- Adult and Continuing Education
- Unclassified

Support Services:

- Pupil
- Instructional staff
- General administration
- School administration
- Business
- Operations and Maintenance
- Transportation
- Central
- Other

Community Services

Outgoing Transfers and Other transactions

(2) School Service Funds - An appropriation resolution must be established for the school service funds. The minimum levels of revenue and expenditures for the school service fund (includes the school lunch program, inter-scholastic athletics, and bookstore, if appropriate) are:

Revenue

- Local
- State
- Federal
- Incoming Transfers and Other Transactions

Expenditures

- Food Service
- Bookstore Activities
- Athletic Activities
- Community Services
- Outgoing Transfers and Other Transactions

(3) Debt Retirement Fund - The following revenue and expenditure categories constitute the minimal level of appropriations for the issues of school district debt retirement funds.

Revenue

Local:

Property tax

Other local

State

Federal

Incoming Transfers and Other Transactions

Expenditures

Redemption of principal

Interest on debt

Dues and Fees

Miscellaneous Expenditures

Outgoing Transfers and Other Transactions

The budgets projected are subject to the provisions of Section 102 of Act 94 of the Public Acts of 1979, as amended, or by any other law. It shall be consistent with the uniform chart of accounts prescribed for local and intermediate school districts by the Manual (Bulletin 1022, revised).

(4) Responsibility - The Superintendent, as chief administrative officer of a local or intermediate school district is responsible for budget preparation and presentation to the school board and for the control of expenditures as presented in the budget and general appropriations act. In the case of local school districts or PSAs which do not employ a superintendent, the elected official who prepares and administers the budget shall act as the chief administrative officer.

(5) Assignment - The Superintendent of the school district may assign the duty of preparation and administration of the budget to a fiscal officer, such as a controller, a finance director, or a business manager, or to an elected or appointed official for such purpose.

(6) Budgets Required - Local school districts must prepare a budget for the general fund, school service fund, debt retirement fund and special education fund (if applicable). Intermediate school districts must also include the special education fund, the area vocational-technical education fund, and the cooperative education fund. Although not required by law, if a school district levies a building site millage, or has a Capital Projects Fund, it is recommended that a formal budget and general appropriation resolution be adopted by the board of education.

(7) Information To School Boards - The chief administrative officer shall furnish the school board of education such information as the board requires for proper consideration of the recommended budget. The budget must include revenue and expenditure information for the most recently completed fiscal year and the ensuing fiscal year. The information should include the amount of surplus or deficit accumulated from prior fiscal years and an estimate of the surplus or deficit expected as a result of the budget being considered. (See figures IV-A-1, IV-A-2 and IV-A-3).

(8) Capital Projects Construction - Information summaries should be provided for each capital construction project. The informational summary should include total cost; and the method of financing the operating costs. (See figure IV-A-4) Sufficient information should be furnished to satisfy the school boards need for information about capital expenditures made out of the general fund.

(9) General Appropriations Resolutions - The local school board shall pass a general appropriation resolution for the general fund, the school service fund, and the debt retirement fund. (see figure IV-A-5).

The intermediate school district board shall enact a general appropriation for the general fund, the special education fund, the area vocational-technical education fund, the cooperative fund and the debt retirement fund.

Deviations from an original appropriation shall not be made without amending the appropriation.

(10) Deficits Prohibited - When it is determined that the actual and probable revenues from taxes and other sources in a fund are less than the estimated revenues, including available fund balances, upon which appropriations from the fund were based, the chief administrative officer shall recommend to the board of education a plan to prevent expenditures from exceeding available revenues for the current fiscal year, [MCL 141.435 (2)].

(11) Budgetary Control - The chief administrative officer of the school district or PSA shall not incur an expenditure against any specific appropriation in excess of the amount authorized by the board of education unless specified in the appropriation.

(12) An appropriation shall not be incurred except pursuant to the authority and appropriations of the school board.

b) REQUIREMENTS OF THE TAX ALLOCATION BOARD

Each Intermediate school district which does not have a fixed millage (School laws- Section 211.205) is required to submit its proposed budget as well as a statement of the total assessment of property lying within its district (Section 211.209) to its county tax allocation board on or before the third Monday in April (section 211.210). This budget should contain:

. . .an itemized statement of proposed expenditures and estimated revenues covering all its departments and activities (Section 211.209) . . .

The county tax allocation board must determine, after careful evaluation (section 211.211) of information submitted by the district, the number of allocated mills to be levied for the fiscal year. A preliminary rate judgement is to be made no later than the third Monday in May. The district will have an opportunity to voice its opinions concerning such rates at a final hearing on rates which occurs not less than 12 days after the preliminary rate judgement has been made (211.215). After the final hearing, the allocation board makes its final rate judgement within 5 days, but not later than the second Monday in June (Section 211.216).

c) REQUIREMENTS FOR PUBLIC HEARING ON THE BUDGET

Each school district must hold a public hearing on its budget before it is adopted as provided for in the School Laws.

The General School Laws also require that prior notice of the hearing must be given to the public:

...notice of such hearing to be given by publication in a newspaper of general circulation within such unit at least six days prior to such hearing. Such notice shall include the time and place of such hearing and shall state the place where a copy of such budget is available for public inspection....

The hearing must be held before the final adoption and after the tax rate allocation has been fixed by the board:

...Each local unit shall hold such public hearing prior to final adoption of its budget...

Refer to Section II, C.03, Truth in Taxation

As an alternate to the Truth in Taxation process, a school district may levy the full authorized operating millage by incorporating the following procedure into the budgeting process.

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1. The school district must comply with section 16 of the Uniform Budgeting and Accounting Act.
2. The school district's notice of the budget hearing must include the following statement in 11-point bold face type:

“The property tax millage rate proposed to be levied to support the proposed budget will be a subject of this hearing.”

3. The school district's General Appropriations Act must include -

“The general appropriations act shall set forth the total number of mills of ad valorem property taxes to be levied and the purposes for which that millage is to be levied.”

d) REQUIREMENTS OF THE STATE SCHOOL AID ACT

The School Aid Act prohibits deficit (negative equity) budgeting:

...A district receiving money under this act shall not adopt or operate under a deficit budget and a district shall not incur an operating deficit in a fund during a school fiscal year (MCL 388.1702)...

...A district having an existing deficit or which incurs a deficit shall not be allotted or paid a further sum under this act until the district submits to the department for approval a budget for the current school fiscal year and a plan to eliminate the district's deficit not later than the end of the second school fiscal year after the deficit was incurred (MCL 388.1702).

The district should view the above requirements not as restrictions, but as mechanisms to promote the utilization of a useful management tool.

**Figure IV-A-1
General Fund
Detail Budget Projection**

	Title	Actual Last Year	Estimated This Year	Estimated Next Year
	REVENUE:	\$	\$	\$
1xx	Local			
2xx	Other Political Subdivisions			
3xx	State			
4xx	Federal			
5xx	Incoming Transfers & Other			
	Total Revenues and Other Transactions			
	EXPENDITURES:			
1xx	Instruction:			
11x	Basic Programs			
12x	Added Needs			
13x	Adult Education			
19x	Unclassified			
2xx	Support Services			
21x	Pupil			
22x	Instructional			
23x	General Administration			
24x	School Administration			
25x	Business			
26x	Operations and Maintenance			
27x	Transportation			
28x	Central Services			
29x	Other			
3xx	Community Services			
4xx	Outgoing Transfers and Other Transactions			
	Total Expenditures and Other Transactions			
	Excess Revenue or (Expenditures):			
	Fund Balance July 1			
	Fund Balance June 30			

IV

**Figure IV-A-2
School Service Fund
Detail Budget Projection**

	TITLE	ACTUAL LAST YEAR	ESTIMATED THIS YEAR	ESTIMATED NEXT YEAR
	REVENUE:	\$	\$	\$
1xx	Local			
3xx	State			
4xx	Federal			
	Transfers In and Other Transactions			
	TOTAL REVENUES, TRANSFERS AND OTHER TRANSACTIONS:			
	EXPENDITURES:			
	Food Service			
	Bookstore Activities			
	Athletic Activities			
	Community Services			
	Transfers Out and Other Transactions			
	TOTAL EXPENDITURES, TRANSFERS AND OTHER TRANSACTIONS:			
	EXCESS REVENUE: (Expenditures)			
	FUND BALANCE: (July 1)			
	FUND BALANCE: (June 30)			

**Figure IV-A-3
Debt Retirement Fund
Detail Budget Projection**

	TITLE	ACTUAL LAST YEAR	ESTIMATED THIS YEAR	ESTIMATED NEXT YEAR
	REVENUE:	\$	\$	\$
1xx	Local Sources:			
	Property Tax			
	Other Local			
3xx	State			
	Transfers In and Other Transactions			
	TOTAL REVENUES AND OTHER TRANSACTIONS:			
	EXPENDITURES:			
	Redemption of Principal			
	Interest on Debt			
	Other Expense			
	Transfers Out and Other Transactions			
	TOTAL EXPENDITURES AND OTHER TRANSACTIONS:			
	EXCESS REVENUE: (Expenditures)			
	FUND BALANCE: (July 1)			
	FUND BALANCE: (June 30)			

Figure IV-A-4
Summary of Capital Construction Projects in Progress
(All Funds)

PROJECT EXPENDITURES	FINANCING SOURCE	ESTIMATED COST			EXPENDITURES TO DATE
		Date Approved	Original Cost	Amended Cost	
Cost of erecting and furnishing a new elementary school building	1988 Bond Issue	1-15-88	\$5,000,000	\$4,900,000	\$3,750,000

E X A M P L E

GENERAL APPROPRIATION RESOLUTION
(Figure IV-A-5)

RESOLUTION FOR ADOPTION BY THE BOARD
OF EDUCATION OF (SCHOOL DISTRICT)

RESOLVED, that this resolution shall be the general appropriations of (school district) for the fiscal year _____: A resolution to make appropriations; to provide for the expenditure of the appropriations; and to provide for the disposition of all income received by (school district).

BE IT FURTHER RESOLVED, that the total revenues and unappropriated fund balance estimated to be available for appropriations in the general fund of the (school district) for fiscal year _____ is as follows:

Revenue	
Local	\$
Other Political Subdivision	
State	
Federal	
Incoming Transfers and Other Transaction	_____
Total Revenue	
Fund Balance, July 1	\$
Less Appropriated Fund Balance	_____
Fund Balance Available to Appropriate	_____
Total Available to Appropriate	<u>\$</u>

BE IT FURTHER RESOLVED, that \$_____ of the total available to appropriate in the general fund is hereby appropriated in the amounts and for the purposes set forth below:

Expenditures	
Instruction:	
Basic Programs	\$
Added Needs	
Adult and Continuing	
Unclassified	
Support Services:	
Pupil	
Instruction Staff	
General Administration	
School Administration	
Business	
Operations/Maintenance	
Transportation	
Central	
Other	
Community Services	
Outgoing Transfers and Other Transaction	_____
Total Appropriated	<u>\$</u>

B. BUDGET PREPARATION PROCESS

B.01 BASIC CONSIDERATIONS

The fundamentals of the budget preparation process will be briefly examined. In the following pages two basic concepts of budgeting will first be discussed, and the actual mechanics to be followed will then be reviewed.

a) CLASSIFICATION OF ACCOUNTS

The account classifications employed in the budgetary process should be identical to those used in the regular accounting systems. This statement implies that since the account classifications in the regular system are required to be accrual based, a budget is invariably referenced in the accrual basis. This use of parallel classifications permits more effective comparison between actual and estimated figures.

b) TYPES OF BUDGETING

The three main forms of budgeting may be described as traditional, program, and performance; each is a refinement of the previous one. In making a choice between them, certain aspects of budgetary management should be considered:

- Budgetary data must be on a functional basis for State reporting purposes.
- Specific programs within the district should be evaluated in terms of the program's contribution to district objectives in relation to its cost.
- "Performance" data, which delineates controllable versus uncontrollable costs, aids in assigning responsibility and in discovering methods for decreasing inefficiency.

The first of these aspects (State reporting requirements), cannot be ignored. These requirements can be fulfilled by use of a hybrid form of the traditional type budget. The second and third aspects, which are benefits of program and performance budgets respectively, may be employed at the discretion of the district. Each district should review and evaluate each type in an effort to strike a balance between costs and benefits to be derived.

(1) Traditional budgeting emphasizes the cost of the type of goods or services purchased, or the object of expenditure. The main object classifications employed in the State coding structure are:

Object Code	Object
10	Salaries
20	Employee Benefits
30-40	Purchased Services
50	Supplies and Materials
60	Capital Outlay
70	Other Expense
80	Transfers

Those districts which use this traditional budgeting form can modify it to include both functions and objects, thus fulfilling the first aspect. The major functional classifications required for budgeting purposed are:

Function Code	Function
100	Instruction
210	Pupil Services
220	Instructional Staff Services
230	Administration
240	School Administration
250	Business Services
260	Operations/Maintenance
270	Transportation
280	Central Services
290	Other Supporting Services
300	Community Services
400	Outgoing Transfers and Other Transactions

A possible format for a budget (utilizing both the functions and objects) is presented in Figure IV-B-1. It should be observed that this matrix consists of two lists; one of functions at the left and the other of objects of expenditure across the top. A district is free to modify this or any other examples in this section to meet its budgetary needs. The format used must, however, enable the district to collect the data needed in order to comply with State reporting requirements.

The traditional method of budgeting has been used by districts having little or no specialized accounting personnel because its concepts are easily understood by bookkeepers as well as by the general public. Unfortunately, the simplicity of this system also tends to limit its scope. The grouping of expenditures by object causes such heavy emphasis to be placed upon the amount spent for different types of goods and services and the meeting of State requirements that the other two aspects of budgetary management, are often ignored. Thus, the district that utilizes this approach should be aware of these weaknesses in order that any additional information needed for proper budgetary management can be generated.

(2) The program approach adds another dimension to the traditional (object and function) type of budgeting. A program can be defined as being: a plan of activities and procedures designed to accomplish a predetermined objective or set of allied objectives.

A program budget would thus consist of traditional budgets for each program of significant size in the district.

This approach has the advantage of assisting in evaluation because of its focus upon costs of specific endeavors in addition to the cost of goods and services purchased. This difference in emphasis allows the district to consider the cost of programs relative to educational objectives, thus taking care of the second aspect of budgetary management. In this case, as with the traditional approach, efforts must be made to generate any further information necessary for proper management.

(3) The Performance approach to budgeting begins with a program budget and continues the process of evaluation by implementing a more extensive informational system which enables the district to:

- Improve forecasting of revenues and expenditures.
- Evaluate and control expenditures in terms of district objectives.
- Take advantage of possible efficiencies and economies in planned expenditures.
- Determine the degree to which the responsibility for district objectives is being properly discharged.

Performance budgeting thus takes into consideration all three aspects of good budgetary management. The following factors concerning performance budgeting must be considered before a decision to implement such a rigorous system is made:

- An increase in staff work may be involved.
- The amount of data produced and the necessity for timely reports and analyses may require data processing capacity.
- The system may require more extensive coordination by all affected by the system in order to be effective.

Other than the requirement for functionally based budgets, the choice of budgeting approach to be used is a district decision.

c) FORCES AFFECTING BUDGETING FORMULATION AND EXECUTION

The school district's environment is continually changing. This dynamic situation must always be considered in the budgetary process. Some of the major forces affecting the budget are:

- **Imposed Regulations and Restrictions:** The General School Laws, the Compiled Laws of Michigan, and Attorney General's Opinions relating to budgetary matters affect the budget process.
- **Organizational Structure of the District:** The structure of the district can greatly affect the feasibility of implementing certain budgetary plans and procedures. It can either aid facilitation or have a restraining influence.

- Economic Conditions: The changing costs (generally increasing) of operating must be offset with additional revenues or improved performance.
- Demographic Characteristics of the District: The demographics of the local public will greatly affect the types of programs supported and opposed.
- Historical Financial Data: While previous practice has a great influence upon what will be accepted in the future, greater emphasis should be placed upon the realistic evaluation of past, present, and future activities, rather than the blind following of precedents.

Once these ideas and forces affecting the budgetary process are given proper consideration, the district can proceed to actual formulation of the budget.

B.02 BUDGET FORMULATION

After the determination of account classification and type of budget to be used has been made, the actual formulation of the budget begins. There are several major steps involved in this process:

- Development of a calendar of activities necessary to finish the process and the scheduled dates for completion of each step.
- Development of preliminary estimates for use by the chief administrative officer evaluating the reasonableness of final estimates.
- Chief administrative officer's statement to staff concerning the form which the budgetary estimates should take and the distribution of forms for departmental estimate submission.
- The development and submission of budgetary estimates.
- Compilation and review of estimates by the central budget office.
- Presentation of budget to chief administrative officer by the central budget office and the chief administrative officer's review and subsequent "hearings" concerning the budgetary estimates.
- Preparation of the budget document.
- Presentation of the budget document to the board for adoption.

After the successful completion of these activities and the required hearing, the budget can be adopted for implementation.

a) BUDGET CALENDAR

It is believed that the best method of organizing the activities of the budgeting process is to devise a schedule of the budget preparation steps needed and to follow these steps in order to ensure the timely completion of the total budget in a systemized manner. The following chart presents some of the more important steps to be included in such a calendar.

SCHOOL DISTRICT BUDGET CALENDAR

Date

- Preliminary budget information submitted to chief administrative officer by central budget office.
- Chief administrative officer's policy statement to staff and distribution of estimate forms.
- Submission of departmental estimates.
- Presentation of compiled budget to chief administrative officer by central budget office.
- Completion of chief administrative officer's hearing.
- Completion of budget document preparation.
- Public hearing and adoption.

b) PRELIMINARY FORECASTS

The chief administrative officer should be supplied with basic budget year information (by the Budget Office) in order that effective decisions may be made concerning budget proposals. Such data should include:

- The results of prior year operations. - The projected results of current operations.
- The revenue potential for the budget year.
- The predicted cost of carrying or deleting present programs in the budget year.
- The projected costs of new programs which may have been supplied by operating units during the year.

c) CHIEF ADMINISTRATIVE OFFICER STATEMENT OF GENERAL BUDGET POLICY

(1) Statement to Staff

The chief administrative officer's ideas concerning the form the budget must take should be communicated to staff members for their considerations during the development of departmental expenditure estimates. Examples of the types of information the budget policy statement may provide are:

- A request to minimize expenditures by taking advantage of possible economies in operations.
- A request for determination of program inadequacies in order that excess revenues may be utilized effectively.
- A review of those expenditures which cannot be reduced (contractual obligations).
- A comment upon economic trends.
- A comment as to the feasibility of adding new programs.

(2) Communication

It is usually advisable for the chief administrative officer to call a meeting of the central budget office and department heads involved in developing budgets in order that any questions concerning the policy statement may be answered. Those attending the meeting should receive:

- A written copy of the policy statement.
- A copy of the budget calendar.
- Forms for submitting estimates. The Central Budget Office should devise a system of forms. Figures IV-B-2(a) and (b) are examples of possible formats for expenditure estimates of Salaries, Purchased Services, Supplies and Materials and Capital Outlay.
- Comparative information to aid in the preparation of estimates. (Figures also incorporate columns in which the Central Budget Officer may enter the actual data for two previous years as well as estimates of the present year. The amount of extra information to be provided will be a decision of the district).
- Directions for the use of the forms.

d) DEPARTMENTAL OR BUILDING LEVEL INVOLVEMENT

(the word “department” will be used below to represent the program, building, or departmental staff involved in the budget process.)

In order to ensure the timely submission of departmental estimates and coordination of all the activities involved in the process of obtaining them, it is advisable that one person from each department be designated as having responsibility for the process. This person should conduct any intradepartmental meetings necessary to develop a long term operating program for the department and to determine budgetary needs.

(1) Operating Program Evaluation

Each department should have a plan for achieving the functions assigned to it. The plan should be reviewed periodically to ascertain progress made toward achieving its goals as well as to keep the plan current. The review could take place at an intradepartmental meeting held before the actual budgetary estimates are formulated by departments. (Intradepartmental meetings might not be feasible in especially small districts or PSAs, so this review would probably occur at the district or PSA rather than departmental level.) Information concerning current and projected activities should be provided to those involved in making departmental policy decisions in order that:

- The validity and feasibility of previously established long-term objectives may be reviewed.
- The present activities may be assessed in terms of achievement of these objectives.
- Any deficiencies in the present activities may be noted and attempts made to compensate for them (by request for more/less resources or by attempts to increase efficiency in the use of present resources).

After the departmental needs have been determined and programs for their fulfillment developed, the constituents begin the task of estimating costs of the prospective programs for submission to the central budget authority.

(2) Estimating Costs

There are four major classifications (object of expenditure) of costs to be calculated by the department budget entities. These are: Salaries, Purchased Services, Supplies and Materials, and Capital Outlay. The fundamentals for making estimates in each of these four classifications will be treated separately.

(a) Salaries

Figure IV B-3 (a) presents a possible work sheet format for estimating within departments.

Regular: An analysis of the programs planned, in terms of the functions to be performed and the amount and types of personnel necessary is made. From these data, estimates within the six categories of regular salaries are developed in columns 1-4. Adjustments to the regular salaries cost should be made for those portions which probably will not be paid (Example: leaves of absence for which payment is not made. These negative adjustments should be placed in Column 5.) Additionally, adjustments should be made for salaries which are not obligations now, but should be provided for (Example: salary increases during the year due to completion of advanced degrees. These “positive adjustments” should be placed in Column 6. Such estimates are usually based upon historical data of the district.).

Temporary and Overtime: Figure IV-B3(b) presents a format for estimating the need for and costs of, temporary employees, i.e. substitute teachers. (These estimates can also be based upon adjusted historical data.) , the need to use overtime, and the probable rates of such overtime in order to produce a total projection.

(b) Purchased Services

The decision to purchase services as opposed to providing the services internally is generally based on the relation: costs and benefits of purchasing services versus cost and benefits of providing the services internally. This relation must be considered in all such decisions.

Figure IV-B-4 presents a format for computation of estimated purchased services cost. All functional classifications needed are entered on the left. The columns are divided into two main groups: units used and cost/unit.

The term “unit” is used to designate hours worked, trips made, etc. The number of units used in the previous year (perhaps an average of several years usage would be more representative) is entered in column (1) and then adjusted for any anticipated change in usage during the budget year in column (2). These two calculations are added and the sum placed in column (3). Column (3) is thus the estimate of units to be used during the budget year.

The previous average “cost/unit” [column (4)] is adjusted for any anticipated change [column (5)] and entered in column (6) as the estimated cost/unit for the budget year.

The units estimated are then multiplied by the estimated cost/unit to calculate the estimated cost for each functional class.

(c) Supplies and Materials

The first step in development of these budget figures is to determine the amount of supplies and materials required to carry out the proposed activities for budget year. Figure IV-B-5 presents a possible format for such budget calculations. The functional classifications are listed at the left. Costs for each in the previous year (or averages of previous years' costs) are entered in column (1) and adjustments for anticipated changes in cost are recorded in column (2). Column (3) represents the supplies and materials in inventory which can be used in the budget year. Column (4) represents the estimated costs for each functional classification.

(d) Capital Outlay

Budgeting for the acquisition of fixed assets using operating funds is concerned primarily with two types of purchases:

- Those which increase the size of the fixed asset inventory.
- Those made to replace assets already in service.

Before estimates of fixed asset inventory to be acquired can be developed, it is first necessary to evaluate the planned educational programs in terms of fixed assets required for their implementation. Once this evaluation has been completed, a comparison should be made between fixed asset inventory needs and previously acquired fixed assets. This comparison should include a review of inventory and service records and a physical inspection of the assets in order to ascertain the condition of the present inventory and thus the need for replacements and any new items considered necessary.

Figure IV-B-6 represents a possible format for capital outlay estimates of a department. Spaces have been provided for such items as type of asset needed, number of units, estimated cost, and replacement versus expansion for each object class recorded in column (6) as shown.

e) **CENTRAL BUDGET OFFICE REVIEW**

After the development of departmental estimates has been completed, the budget office begins the process of compiling the information in budget form for presentation to the superintendent. This process consists of the following steps:

(1) Evaluation of Department Estimates

The information supplied by the departments should be reviewed in terms of accuracy, possible problems in implementing programs proposed, and reasons for substantial variations between projections and costs incurred during previous years.

(2) Development of Non-Departmental Estimates

Estimates in the remaining object of expenditure classifications (Employee Benefits, Other Expense, and Transfers) must be developed by the budget office. Such projections can be made by adjusting historical data for probable budget year conditions.

(3) Departmental Hearings

In order to make certain that all departments are given the chance to justify their estimates to the budget office, departmental hearings, or private conferences, are held. These meetings include the chief budget officer and representatives from each department. This ensures that interdepartmental conflict will be avoided until after the budget officer has gained an understanding of all the major proposals.

(4) Development of Revenue Estimates

Estimates of anticipated revenues must now be made in order that the expenditure projections may be put into perspective. The following steps need to be taken:

Figure IV-B-7 is a suggested format for estimating such revenues. The two major sources of revenue, property taxes and membership from the School State Aid Act, have been dealt with in more detail.

(5) Presentation of Budget to Chief Administrative Officer

After each department has had a chance to justify its projections, the budget office compiles the information into a form which can be presented to the chief administrative officer. Such a summary should include:

- A summary of the requests made by departments and a notation concerning which requests require changes in policy for implementation.
- A preliminary budget balancing proposed expenditures against anticipated revenues.
- Definite suggestions concerning the treatment of major departmental proposals as well as statements concerning items which may have been omitted from such proposals by the departments.

(f) CHIEF ADMINISTRATIVE OFFICER REVIEW**(1) Central Budget Office Presentation**

The budget presentation by the budget office should be designed to include all the salient issues and yet be concise as possible. Adherence to this rule ensures that the chief administrative officer's time will not have to focus upon budget issues which are relatively unimportant and which could be handled by the budget office.

(2) Chief Administrative Officer Hearings

As in the reviews by the budget office, departmental representatives are also given the opportunity to make known the reasons for their requests. This opportunity comes in the form of the "chief administrative officer's hearing(s)". These meetings include:

- The superintendent or chief administrative officer
- Representatives from various departments (either at their own request or at the request of the chief administrative officer in matters where the chief executive feels need for more clarification of requests before making policy decisions).

Conducting these hearings enables the chief administrative officer to hear new points of view, learn which matters are most important to the departments, and check the thoroughness of the analysis carried on by the budget office.

The department representatives involved in the hearings should be made aware of the central budget officers position on the issues to be considered in order that proper justification may be prepared. These agents should also know that any position taken by the budget office is not final until it is forced to make a choice between two or more issues. It is essential that these hearings be conducted in accordance with carefully prepared agendas.

(3) Revision and decisions to be made by the Chief Administrative Officer**(a) Content of the Final Budget**

After the hearings have been completed, the chief administrative officer must make any necessary policy decisions on the issues discussed.

(b) Revision of Preliminary Budget

The Central Budget Office then compiles the data into a final budget by matching the projected revenues with the approved expenditures.

(c) Handling of Surpluses and Deficits

The compilation of budget data will indicate either a planned surplus or deficit (the difference between revenues and expenditures), for the budget year.

- Surplus: A measure of flexibility may be built into the budget in the form of reserve for contingencies. The “reserve” is an account set up for the purpose of supplementing other expenditure accounts where necessary.
- Deficit: a deficiency in revenues for the budget year may often be compensated for by using a portion of the fund balance accumulated in previous years. If no fund balance exists, the district is budgeting an operating deficit. Adopting such a budget would be a violation of Section 102 of Act 258, Public Acts of 1972, as amended. Violation of this section carries the penalty of discontinuance of State Aid payments to the district until a new budget is submitted to and accepted by the Department. Thus, the budget must be revised by reducing planned expenditures (or increasing planned revenues) at least to a point where:

$$\text{Revenues} - \text{Expenditure} + \text{Fund Balance} = 0,$$

But more realistically where:

$$\text{Revenues} - \text{Expenditures} + \text{Fund Balance} = \text{A Positive Amount}$$

The second alternative allows the district or public school academy to include an amount for contingencies in its budget. A further consideration is that under the accrual basis of accounting there are assets recorded such as property taxes receivable and inventories which will not be converted into cash during the year and hence will not be available for expenditure. Sound financial planning will recognize the need for adequate working capital at all times during the year.

g) PREPARATION OF THE BUDGET DOCUMENT

The budget is now ready to be prepared for presentation to the board of education. The document is to be prepared by the budget office and should include:

(1) The Budget Message

The intent of the message is to communicate the more important features of the proposed budget to the board and to the general public. Such a message should encompass the following:

- A report concerning the current financial status and the probability of completing the present year within appropriations previously made.
- A statement concerning revenues expected and new revenues required.
- A statement concerning the district's long-term budgetary outlook.
- An indication of major trends affecting school finance.
- The highlights of the proposed budget in terms of program expansion and planned economies of operation.
- A review of the circumstances which caused the chief administrative officer to recommend the policy decisions indicated.
- A review of the budget increases caused by changes and required increases (such as salaries).
- An outline of problem areas which have not been reconciled within the current budget.

(2) Comparative Schedules showing Historical Trends

(3) Detailed Revenue Estimates

(4) Statements of Educational Programs Planned

(5) Detailed Expenditure Estimates

(6) Data Supporting the Schedules

h) ADOPTION OF THE BUDGET

The Chief Administrative Officer should now present the budget to the board for its consideration. The board members should review the budget in terms of the district's educational objectives, ask any questions regarding the propositions put forth, and vote to adopt it as is or with alterations.

Before final adoption of the budget, a public hearing on the budget must be held.
(Section 141.412)

After final adoption of the budget, before July 1, the appropriations thus made should be recorded in the accounts.

Figure IV-B-1
Summary Budget -- Functional Basis

Function Code	Function	Function Totals	OBJECTS OF EXPENDITURE						
			10xx Salaries	20xx Employee Benefits	30-40xx Purchased Services	50xx Supplies & Materials	60xx Capital Outlay	70xx Other Expense	80xx Transfers
100	Instruction	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
210	Pupil Services	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
220	Instructional Staff Services	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
230	General Administration	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
240	School Administration	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
250	Business Services	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
260	Operations & Maintenance	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
270	Transportation	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
280	Central Services	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
290	Other Supporting Services	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
300	Community Services	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
400	Outgoing Transfers & Other Transactions	XXX						XXX	XXX
	TOTALS	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX

Figure IV-B-2 (a)
Departmental Estimate -- Functional Basis
 (To be used for Salaries, Purchased Services, Supplies and Materials Estimates)

Object: _____ **Object Code:** _____ **Department:** _____

2nd Prior Year (1)	1st Prior Year (2)	CURRENT YEAR		Function Code (5)	Function (6)	Budget Request (7)	Budget Recommended (8)
		Budget (3)	Experience Estimate (4)				
				100	Instruction		
				210	Pupil Services		
				220	Instructional Staff Services		
				230	General Administration		
				240	School Administration		
				250	Business Services		
				260	Operations		
				270	Transportation		
				280	General Services		
				290	Other Supporting Services		
				300	Community Services		
					TOTALS:		

Figure IV-B-2 (b)
Departmental Estimate -- Functional Basis
(To be used for Capital Outlay)

Function: _____

Department: _____

2nd Prior Year (1)	1st Prior Year (2)	CURRENT YEAR		Object Code (5)	Object (6)	Budget Request (7)	Budget Recommended (8)
		Budget (3)	Experience Estimate (4)				
				6100	Land		
				6200	Building and Additions		
				6300	Improvements Other than Building		
				6400	Equipment and Furniture		
				6500	Vehicles Other than Buses		
				6700	Library Books		
				6900	Other		
					TOTALS:		

Figure IV-B-3 (a)
Salary Estimates -- Functional Basis
Object Codes 11-16: Regular Salaries

Function Code	Function	Staff	ESTIMATE CALCULATION						
			Wage Rate (1)	Time To Be Worked (2)	Salary (Or Wage X Time) (3)	Functional Totals (4)	Negative Adjustments (5)	Positive Adjustments (6)	Adjusted Functional Salaries (4) + (5) + (6) (7)
100	Instruction	_____	XXX	XXX	XXX				
		_____	XXX	XXX	XXX				
	TOTALS FOR 100	_____	XXX	XXX	XXX	XXX	XXX	XXX	XXX
210	Pupil Services	_____	XXX	XXX	XXX				
		_____	XXX	XXX	XXX				
	TOTALS FOR 210	_____	XXX	XXX	XXX	XXX	XXX	XXX	XXX
220	Instructional Staff Services	_____	XXX	XXX	XXX				
		_____	XXX	XXX	XXX				
	TOTALS FOR 220	_____	XXX	XXX	XXX	XXX	XXX	XXX	XXX
230	General Administration	_____	XXX	XXX	XXX				
		_____	XXX	XXX	XXX				
	TOTALS FOR 230	_____	XXX	XXX	XXX	XXX	XXX	XXX	XXX
240	School Administration	_____	XXX	XXX	XXX				
		_____	XXX	XXX	XXX				
	TOTALS FOR 240	_____	XXX	XXX	XXX	XXX	XXX	XXX	XXX
250	Business Services	_____	XXX	XXX	XXX				
		_____	XXX	XXX	XXX				
	TOTALS FOR 250	_____	XXX	XXX	XXX	XXX	XXX	XXX	XXX
260	Operations and Maintenance	_____	XXX	XXX	XXX				
		_____	XXX	XXX	XXX				
	TOTALS FOR 260	_____	XXX	XXX	XXX	XXX	XXX	XXX	XXX
270	Transportation	_____	XXX	XXX	XXX				
		_____	XXX	XXX	XXX				
	TOTALS FOR 270	_____	XXX	XXX	XXX	XXX	XXX	XXX	XXX
280	Central Services	_____	XXX	XXX	XXX				
		_____	XXX	XXX	XXX				
	TOTALS FOR 280	_____	XXX	XXX	XXX	XXX	XXX	XXX	XXX
290	Other Supporting Services	_____	XXX	XXX	XXX				
		_____	XXX	XXX	XXX				
	TOTALS FOR 290	_____	XXX	XXX	XXX	XXX	XXX	XXX	XXX
300	Community Services	_____	XXX	XXX	XXX				
		_____	XXX	XXX	XXX				
	TOTALS FOR 300	_____	XXX	XXX	XXX	XXX	XXX	XXX	XXX
TOTALS						<u>XXX</u>	<u>XXX</u>	<u>XXX</u>	<u>XXX</u>

Figure IV-B-3 (b)
Salary Estimate -- Functional Basis

Object Code 18: Temporary Salaries
Object Code 19: Overtime Salaries

Function Code	Function	TEMPORARY SALARIES			OVERTIME SALARIES		
		Estimated Temporary Hours To Be Worked (1)	Estimated Temporary Rate/Hour (2)	Estimated Temporary Salaries (3)	Estimated Overtime Hours To Be Worked (4)	Estimated Overtime Rate/Hour (5)	Estimated Overtime Salaries (6)
100	Instruction	XXX	XXX	XXX	XXX	XXX	XXX
210	Pupil Services	XXX	XXX	XXX	XXX	XXX	XXX
220	Instructional Staff Services	XXX	XXX	XXX	XXX	XXX	XXX
230	General Administration	XXX	XXX	XXX	XXX	XXX	XXX
240	School Administration	XXX	XXX	XXX	XXX	XXX	XXX
250	Business Services	XXX	XXX	XXX	XXX	XXX	XXX
260	Operations and Maintenance	XXX	XXX	XXX	XXX	XXX	XXX
270	Transportation	XXX	XXX	XXX	XXX	XXX	XXX
280	Central Services	XXX	XXX	XXX	XXX	XXX	XXX
290	Other Supporting Services	XXX	XXX	XXX	XXX	XXX	XXX
300	Community Services	XXX	XXX	XXX	XXX	XXX	XXX
	TOTALS			XXX			XXX

Figure IV-B-4
Purchased Services Estimates
Functional Basis

Function Code	Function	Type of Service	UNITS TO BE USED			COST/UNIT			Estimated Costs (3)X(6) (7)	Total Functional Class Estimate (8)
			Previous Year's Units Used (1)	Estimated Inc./Dec. Units Used (2)	Estimated Units To Be Used (3)	Previous Year's Cost/Unit (4)	Estimated Inc./Dec. Cost/Unit (5)	Estimated Cost/Unit (6)		
100	Instruction	_____	XXXX XXXX XXXX	XXXX XXXX XXXX	XXXX XXXX XXXX	XX/XX XX/XX XX/XX	XX/XX XX/XX XX/XX	XX/XX XX/XX XX/XX	XXXX XXXX XXXX	XXXXX
210	Pupil Services	_____	XXXX XXXX	XXXX XXXX	XXXX XXXX	XX/XX XX/XX	XX/XX XX/XX	XX/XX XX/XX	XXXX XXXX	XXXXX
220	Instructional Staff Services	_____	XXXX XXXX	XXXX XXXX	XXXX XXXX	XX/XX XX/XX	XX/XX XX/XX	XX/XX XX/XX	XXXX XXXX	XXXXX
230	General Administration	_____	XXXX XXXX	XXXX XXXX	XXXX XXXX	XX/XX XX/XX	XX/XX XX/XX	XX/XX XX/XX	XXXX XXXX	XXXXX
240	School Administration	_____	XXXX XXXX	XXXX XXXX	XXXX XXXX	XX/XX XX/XX	XX/XX XX/XX	XX/XX XX/XX	XXXX XXXX	XXXXX
250	Business Services	_____	XXXX XXXX	XXXX XXXX	XXXX XXXX	XX/XX XX/XX	XX/XX XX/XX	XX/XX XX/XX	XXXX XXXX	XXXXX
260	Operations and Maintenance	_____	XXXX XXXX	XXXX XXXX	XXXX XXXX	XX/XX XX/XX	XX/XX XX/XX	XX/XX XX/XX	XXXX XXXX	XXXXX
270	Transportation	_____	XXXX XXXX	XXXX XXXX	XXXX XXXX	XX/XX XX/XX	XX/XX XX/XX	XX/XX XX/XX	XXXX XXXX	XXXXX
280	Central Services	_____	XXXX XXXX	XXXX XXXX	XXXX XXXX	XX/XX XX/XX	XX/XX XX/XX	XX/XX XX/XX	XXXX XXXX	XXXXX
290	Other Supporting Services	_____	XXXX XXXX	XXXX XXXX	XXXX XXXX	XX/XX XX/XX	XX/XX XX/XX	XX/XX XX/XX	XXXX XXXX	XXXXX
300	Community Services	_____	XXXX XXXX	XXXX XXXX	XXXX XXXX	XX/XX XX/XX	XX/XX XX/XX	XX/XX XX/XX	XXXX XXXX	XXXXX
TOTALS										XXXXX

Figure IV-B-5
Supplies & Materials Estimate
Functional Basis

FUNCTION CODE	FUNCTION	COST FOR PREVIOUS YEAR(S) (1)	ESTIMATED INC./DEC. COST (2)	ESTIMATED COST (2) + (3) (3)
100	Instruction	XXXX	XXXX	XXXX
210	Pupil Services	XXXX	XXXX	XXXX
220	Instructional Staff Services	XXXX	XXXX	XXXX
230	General Administration	XXXX	XXXX	XXXX
240	School Administration	XXXX	XXXX	XXXX
250	Business Services	XXXX	XXXX	XXXX
260	Operations and Maintenance	XXXX	XXXX	XXXX
270	Transportation	XXXX	XXXX	XXXX
280	Central Services	XXXX	XXXX	XXXX
290	Other Supporting Services	XXXX	XXXX	XXXX
300	Community Services	XXXX	XXXX	XXXX
	TOTALS	<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>

Figure IV-B-6
Capital Outlay Estimates

Object Code	Object Class	Item Needed	Replacement Units (1)	Expansion Units (2)	Total Units (3)	Estimated Cost/Unit (4)	Total Estimated Cost (3) X (4) (5)	Object Total (6)
63xx	Improvements Other Than Building	_____ _____ _____	XX XX	X XX X	XXX XXX XXX	XX/XX XX/XX XX/XX	XXX XXX XXX	XXXXX
64xx	Equipment and Furniture	_____ _____ _____	X XX	 XX XX	XXX XXX XXX	XX/XX XX/XX XX/XX	XXX XXX XXX	XXXXX
65xx	Vehicles Other Than Buses	_____ _____ _____	XX X XX	XX XX X	XXX XXX XXX	XX/XX XX/XX XX/XX	XXX XXX XXX	XXXXX
69xx	Other	_____ _____ _____	 XX X	XX X	XXX XXX XXX	XX/XX XX/XX XX/XX	XXX XXX XXX	XXXXX
TOTAL CAPITAL OUTLAY								XXXXX

**Figure IV-B-7
Revenue Estimates**

MAJOR CLASS CODE	MAJOR CLASS	COMPUTATION OF ESTIMATE			MAJOR CLASS ESTIMATES	TOTAL S
100	Revenue from Local Sources					
111	Property Taxes	1 - Present Operating Millage		XXXX		
		2 - Estimated Millage Increase/Decrease		XXXX		
		3 - (1) + (2)		XXXX		
		4 - Present District State Equalized Valuation		XXXX		
		5 - Estimated Increase/Decrease in District State Equalized Valuation		XXXX		
		6 - (4) + (5)		XXXX		
		7 - (3) X (6)		XXXX	XXXX	
		Previous Year's Revenue	Estimated Incr./Decr. In Revenue	Estimated Revenue		
118-199	Other Revenue From Local Sources	XXXX	XXXX	XXXX	XXXX	
	TOTAL					XXXX
200	Revenue from Other Political Subdivisions					
		Previous Year's Estimate	Estimated Incr./Decr. In Revenue	Estimated Revenue		
210	Grants - In - Aid	XXXX	XXXX	XXXX	XXXX	
	TOTAL					XXXX

C. EXECUTION

Once the district or PSA has an adopted budget, preparation must be made for the implementation of this plan, that is, to assure that the objectives of the budget are achieved.

C.01 RESPONSIBILITY FOR EXECUTION

The responsibility for the actual execution of the budget rests with the department to which appropriations have been made. Of course, some central coordination and control is necessary, because the chief administrative officer has the ultimate responsibility for the achievement of educational objectives within the resources available.

C.02 DUTIES OF SCHOOL OFFICIALS

The actual execution of the budget involves many of the district's or PSA's officials. The duties to be performed by each are as follows.

a) DEPARTMENTS RECEIVING APPROPRIATIONS

Departments which receive appropriations are committed to achieving the objectives for which such appropriations were made. In order to insure that the objectives will be met, the department should:

- Determine what work is necessary for achievement of the specified goals and carefully schedule such work to ensure its accomplishment.
- Attempt to increase the efficiency of resource utilization wherever possible.

b) DISTRICT'S CENTRAL ACCOUNTING OFFICE

The accounting agency for the district or PSA should keep records of the financial progress of the budget. This record keeping function consists of:

- Reviewing transactions for conformity with the planned purpose of specific appropriations, assuring that no transactions occur unless an unencumbered balance exists.
- Developing status reports concerning progress in appropriation usage (both expenditures and encumbrances) and notifying departments involved of such status.

c) DISTRICT OR PSA'S CENTRAL BUDGET OFFICE

The budget office's role in the execution process consists mainly of reviewing and evaluating the progress being made toward district objectives. The office should:

- Act as a counselor to departments needing advice concerning the meeting of objectives.
- Scrutinize the expenditures being made by the departments to ensure alignment with objectives.
- Review the status of appropriations.
- Report any substantial deviations from the budgetary plan to the chief administrative officer.

d) SUPERINTENDENT

Although the responsibility for actual budget execution rests upon the departments, the chief administrative officer is responsible for the proper supervision of such execution. In order to discharge this responsibility, the chief administrative officer must be provided with information concerning significant aspects of execution.

e) BOARD OF EDUCATION

The board is, of course, concerned about the results obtained by budget execution because it is being held accountable by the public. Discharge of this responsibility is effected by:

- Receiving and reviewing reports concerning the status of appropriation.
- Reviewing audit reports.
- Investigating any complaints and suggestions from the public.
- Acting upon any requests for alteration of the budget.

C.03 CONTROL TECHNIQUES

In order to assure the proper execution of the budget, the district or PSA should establish an information system which enables it to ascertain the progress being made toward the prescribed objectives.

Such an information system will usually consist of a series of progress reports for use by the departments and evaluation by the central budget office, the chief administrative officer, and the board.

a) ENCUMBRANCES

(1) Advantages of Encumbering

Many districts find it useful during the year to record encumbrances for expenditures at the time the materials or services are ordered from outside sources. This has the advantage of enabling the district to determine how much unexpended budget remains in particular categories, taking into consideration both expenditures recorded under the cash or accrual basis and items ordered but not received.

(2) Methods of Recording Encumbrances

Encumbrances are recorded by districts in several ways:

- A charge to expenses and a credit to a liability account “encumbrances payable.”
- A charge to expenses and a fund balance reserved account “reserve for encumbrances.”
- On a memo basis only, with the statement of operations showing a column for encumbrances in addition to regularly recorded expenditures. Encumbrances not liquidated on the accrual basis of accounting at year end may not be carried over as liabilities or as a reserve for encumbrances. Certain Federal grants permit or require the recording of encumbrances at the end of the program year.

(3) State Requirements Regarding Encumbrances

In view of these differences, this manual mandates that encumbrances not be reported as expenditures in year end financial statements so that there is consistency of treatment among schools. A district or PSA should be subject to the following guidelines:

- Use of encumbrances as a budgetary control device during the fiscal year is in the best interest of sound fiscal management. School districts and PSAs are encouraged to use this device for budget management.
- A district or PSA may wish to reserve its fund balance for unliquidated encumbrances at year end. Reservation of “fund balance” can be made by the district or PSA in its financial records but no reserves can be set up which results in a charge to an account other than “fund balance.”
- In the case of consumable supplies, books, fuel, etc., the object should be to record expenditures equal to the amount used during the school year. It is not appropriate to order large quantities of items in June for use in the fall and record and encumbrance as a reserved fund balance. Normally, the fact that items are ordered late in the school year is good evidence that they are for use in future years and an encumbrance should not be recorded.
- Where the budget for a year provides for significant items of major repairs, renovations, painting, or capital outlay and the work is incomplete at June 30, it is desirable to segregate in “fund balance” the estimated cost to complete such projects. A legally binding purchase order or contract should exist to justify reservation of fund balance.

b) FINANCIAL REPORTS

At regular intervals during the execution, the central budget office should prepare reports which are designed to enable:

- Each department receiving an appropriation to know its unencumbered balance thereby ensuring that operations are conducted within the approved budget.
- The chief administrative officer and board to see the progress being made toward district objectives.

(1) Departmental Status Reports

Figure IV-C-1 presents a possible format to be used in periodic appropriation status reports made to departments. The functions (and also the object, capital outlay) are listed at the left and then the appropriations, expenditures, and encumbrances to date are reported as shown.

(2) Consideration in Preparation

When preparing interim budgetary statements, it is important to realize that there are several situations which might cause such reports to be distorted. Examples of these situations are:

- Schools often prepare interim statements on the cash or encumbrance basis, while using the accrual basis for annual statements and budgetary purposes.
- Many items of revenue are received at irregular intervals during the year.
- Many expenses have pronounced seasonal patterns.
- Salaries may be paid over a 12 month basis while earned over 10 months.

As a result of these factors the administration and board of a school would not be able to look at a statement for the six months ended December 31, as example, and assume that any item where the actual revenue or expense to date was significantly greater or less than one-half of the annual budget would show a significant variance at year end.

One way to solve this problem would be for a budget officer to break down the annual budget into monthly budgets based on anticipated timing of income and expense items and then compare the actual to date with these projections. This would, however, involve considerable work and judgement and still could result in erroneous conclusions if there were errors in timing estimates.

c) MONITORING OF PROCESS

It is suggested that a statement of anticipated over and under runs of budgeted items at year end be submitted periodically to the administration and the board, based on the best information available to the budget officer at that date. The statement should show the new combined budget variance that would result if the projections are realized. In preparing such a statement, the budget officer should perform at least the following procedures:

- Compare budget to the payroll expense by function which would result if present personnel remain during the budget year.
- Review of grant and State aid revenues and reporting any variances that will result from actions by outside bodies.
- Project costs of any unbudgeted activity that has commenced during the year.

- Review maintenance authorizations for any unbudgeted major projects which have become necessary during the year.

d) HANDLING OF VARIANCES

Whenever it becomes apparent to the administration and the board that significant variances from the budget will occur, the chief administrative officer must recommend to the board of education a revised budget and, if necessary, revised appropriation act to prevent expenditures from exceeding available revenue and fund balance for the current fiscal year to avoid violation of Section 102 of the State Aid Act of 1979 as amended and Public Act 621 of 1978 as amended.

If a district or PSA has no accumulated equity, it cannot allow its total expenditures to exceed its total revenues. Such an occurrence would require the State to withhold further State aid payments to the district until the district provided an approvable plan to eliminate the deficit. Thus the board of a district or PSA which anticipates that its total expenditures will be greater than its total revenues must take immediate action to reduce future expenditures. This means that the board should review the appropriation status reports periodically in order to be aware of any probable problems in time to act.

If, on the other hand, the district or PSA does have a positive fund balance and new information indicates that revenues will be higher/lower than originally anticipated, then the board should make any necessary adjustments in its expenditure appropriations.

It is anticipated that total expenditures will vary enough to cause a shortage of funds, then the board should either direct expense reductions to offset the shortage or appropriate additional funds to cover the added expense.

It is anticipated that total revenues and total expenditures will not vary greatly, but certain line items will be overrun, then the board would either approve appropriation transfers from contingent or underrun accounts to cover the overruns or order expense reductions to correct overruns.

e) REPORTS OF EDUCATIONAL DATA

In addition to the periodic compilation and reporting of financial data, the district or PSA should provide a system of developing and reporting educational data. Such reports might include statistics to show:

- The progress being made by students toward pre-set educational objectives (determined by test).

- The response to certain programs (in terms of number of students involved now and previously).
- Any other information required to enable the administration to assess the progress being made toward the objectives.

(For a more complete discussion of this subject, see the Management Information Reporting section.)

Of course, in the generation of any such information, the relationship between costs and benefits derived must be considered.

C.04 ILLUSTRATION

The illustrations on the following pages are designed to be used as examples for the Budget Section.

**Figure IV-C-1
Appropriation Status**

Department: _____ **Date:** _____

Function Code	Function	Appropriations (1)	Expenditures (2)	Encumbrances (3)	Unencumbered Balance (4)
100	Instruction	XXXX	XXXX	XXXX	XXXX
210	Pupil Services	XXXX	XXXX	XXXX	XXXX
220	Instructional Staff Services	XXXX	XXXX	XXXX	XXXX
230	General Administration	XXXX	XXXX	XXXX	XXXX
240	School Administration	XXXX	XXXX	XXXX	XXXX
250	Business Services	XXXX	XXXX	XXXX	XXXX
260	Operations and Maintenance	XXXX	XXXX	XXXX	XXXX
270	Transportation	XXXX	XXXX	XXXX	XXXX
280	Central Services	XXXX	XXXX	XXXX	XXXX
290	Other Supporting Services	XXXX	XXXX	XXXX	XXXX
300	Community Services	XXXX	XXXX	XXXX	XXXX
400	Outgoing Transfers	XXXX	XXXX	XXXX	XXXX
TOTALS		XXXX	XXXX	XXXX	XXXX